

## WEEKLY WRAP

17 May 2021

**India's second wave flattening**

**Global yields went up on higher than anticipated inflation in US. China's producer prices too rose higher than estimates. Economic sentiment in Germany rose to a 21-year high. Indian yields fell amidst economic impact of Covid-19 and muted CPI. Our weekly economic tracker shows economic activity has slowed down by another 2% this week. However, cases in number of Indian states are now flattening which shows local lockdowns are working. We do see normalisation playing out gradually from Q2FY22 onwards.**

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**Markets**

- **Bonds:** Except China and India, global yields closed higher. Germany's 10Y yield rose the most by 9bps as economic sentiment rose to a 21-year high. US 10Y yield rose by 5bps (1.63%) as inflation surprised negatively and jobless claims were lower. Crude prices rose by 0.6% (US\$ 69/bbl). India's 10Y yield fell by 3bps (5.99%) with muted CPI. System liquidity surplus fell to Rs 4.2tn as on 14 May 2021 from Rs 4.7tn WoW.
- **Currency:** Except INR and GBP, other global currencies closed lower this week. DXY rose by 0.1% as US jobless claims fell to a 14-month low. GBP rose by 0.8% on expectations of strong economic recovery led by rapid vaccination. INR rose by 0.3% supported by FII inflows (US\$ 131mn).
- **Equity:** Barring Dax and Shanghai Comp, other global indices ended lower as investors monitored rising Covid-19 cases globally. Nikkei (4.3%) dropped the most. Sensex (2.1%) too ended in red led by surge in infections and vaccine shortage. Metal and real estate stocks fell the most.
- **Covid-19 tracker:** Global Covid-19 cases rose by 5.1mn this week versus 5.5mn last week, led by India which added 2.6mn cases versus 2.7mn WoW. New Covid-19 cases in a number of Indian states are now gradually declining. Our weekly economic activity tracker index dipped to 81 (100=Feb'20) from 83 last week. Israel has vaccinated 63% of its population (single dose), UK at 53% and US at 46%. India is now at 10.1%.
- **Upcoming key events:** Markets await global flash PMIs, US housing starts data and minutes of FOMC and RBA meetings. In India, vaccination progress and surge in Covid-19 case load will drive markets.



## India macro developments

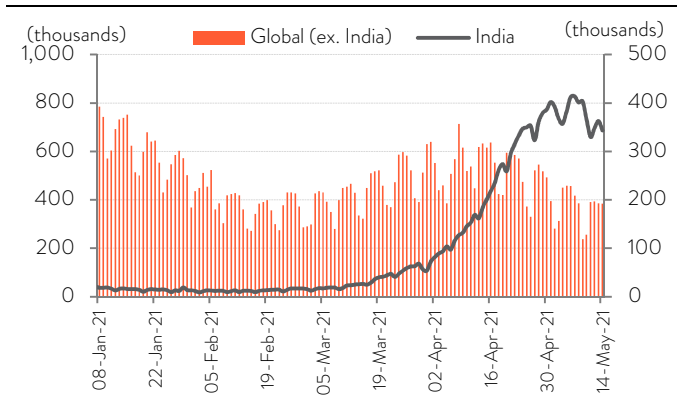
- India's unemployment rate continued to shoot up and rose to 8.19% (30-day moving average) as on 10 May 2021 versus 7.91% in the previous week. This was the highest rate since Jan'21. Both rural and urban unemployment rate inched up to 7.11% and 10.52% respectively from 7.07% and 9.69%. This number may deteriorate further due to rising Covid-19 cases and reverse migration in few States (Karnataka, Delhi, Kerala).
- As per AMFI data, AUMs of mutual funds rose to Rs 32.4tn in Apr'21 from Rs 31.4tn in Mar'21. Net inflows also improved to Rs 929bn from outflows of Rs 297bn in Mar'21. This was driven by higher inflows in the debt segment amounting to Rs 773bn compared with outflows of Rs 516bn in Mar'21. However, equity inflows moderated to Rs 18bn from Rs 73bn in Mar'21.
- As per news reports, government will release the 8th instalment under the PM-KISAN scheme amounting to Rs 190bn. This is likely to benefit around 95mn farmers. Under this scheme, a financial benefit of Rs 6,000/year is provided in instalments. Till date, Rs 1.15tn has been transferred to the beneficiaries.
- India's industrial output rose by a stellar 22.4% in Mar'21, even after adjusting for a low base. CPI inflation eased to 4.3% in Apr'21 from 5.5% led by moderation in food inflation to 2% in Apr'21 (4.9% in Mar'21). Core inflation too edged down to 5.5% in Apr'21 from 6.1%. While industrial activity has lost momentum on the back of lockdowns, inflationary pressure is building up due to rising international commodity prices. Inflation trajectory is contingent on monsoon rainfall.
- RBI reported that currency in circulation (CIC) increased by Rs 25.1bn and stood at Rs 29tn for the week ending 7 May 2021. Reserve money rose by 17.1% on a YoY basis, compared with 10.5% last year. On FYTD basis, reserve money increased by 2.8% against 1.2% increase, a year ago.
- India's exports rose by 195.7% in Apr'21 versus 60.3% in Mar'21, and imports rose by 167.1% versus 53.7% in Mar'21. The sharp jump was owing to base effect as trade had fallen significantly in Apr'20 due to nationwide lockdown. Exports of gems & jewellery and textiles rose the most. Trade deficit in Apr'21 rose to US\$ 15.1bn from US\$ 13.9bn in Mar'21.

## Global macro developments

- Australia's retail sales rebounded and rose by 1.3% in Mar'21 compared with a contraction of 0.8% in Feb'21 on a MoM basis. This was driven by record sales at cafes and restaurants (4.8%) followed by sales in departmental stores (8.5%) and clothing & footwear industry (5.4%). Separately, National Australia Bank's business confidence index also touched a record high of 26 in Apr'21 from 15 in Mar'21, signalling strong recovery.
- China's PPI rose by 6.8% in Apr'21 (est. 6.5%) from 4.4% in Mar'21, registering the sharpest increase since Oct'17. The rise was attributed to a lower base as well as higher commodity prices, particularly for iron ore and non-ferrous metals. CPI inflation also rose to a 9-month high of 0.9% in Apr'21 (est. 1%) from 0.4% in Mar'21.
- US PPI rose by 0.6% in Apr'21 (est. 0.3%) after increasing by 1% in Mar'21 on a MoM basis. Prices of both goods and services rose by 0.6%. Core inflation rose by 0.7% from 0.6% in Mar'21. On a YoY basis, PPI rose to its highest in the current series at 6.2% in Apr'21 from 4.2%. Separately, jobless claims for the week ended 8 May 2021 fell by 34,000 to a 14-month low of 473,000 (est. 495,000).
- Japan's current account surplus narrowed to ¥ 2.65tn in Mar'21 from ¥ 2.9tn in Feb'21. Amongst key components, goods trade surplus expanded to ¥ 983.1bn from ¥ 524.2bn in Feb'21. Services deficit also narrowed to ¥ 47.1bn from ¥ 75.7bn in Feb'21. However, surplus on account of primary income which reflects returns on overseas investment narrowed to ¥ 2.05tn from ¥ 2.63tn in Feb'21.
- Germany's investor confidence recovered sharply to a 21-year high of 84.4 in Apr'21 from 70.7 in Mar'21 driven by rapid pace of vaccination rollout. With slowdown in Covid-19 cases, the financial market experts are optimistic and expect an economic upswing in the near term. The current economic situation indicator for Eurozone also improved significantly by 14 pts to (-) 51.4 in Apr'21.
- US macro prints showed moderation. Retail sales remained unchanged in Apr'21 (est.: 1%) against 10.7% increase in Mar'21. Core retail sales also dropped by 1.5% in Apr'21 from 7.6% increase in Mar'21. Even industrial production edged down to 0.7% in Apr'21 (est.: 0.9%) from 2.4% in Mar'21. This was dragged down by manufacturing (0.4% versus 3.1%) and mining output (0.7% versus 8.9%).

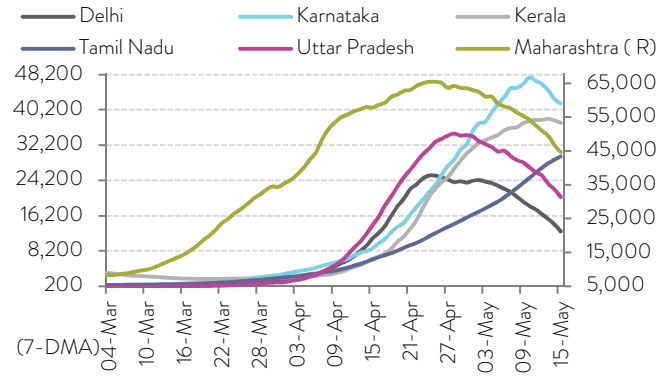
## High Frequency Indicators and Weekly Activity Tracker

**FIG 1 – INDIA’S COVID-19 CASES PLATEAUING**



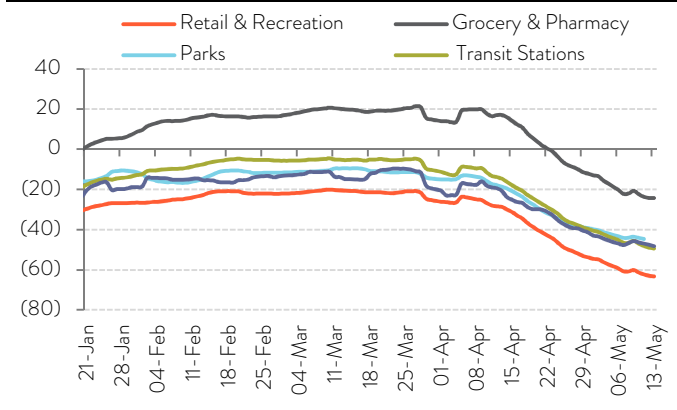
Source: Bloomberg, Bank of Baroda Research \*Data as of 14 May 2021

**FIG 2 – MODERATION IN COVID-19 CASES IN SEVERAL STATES**



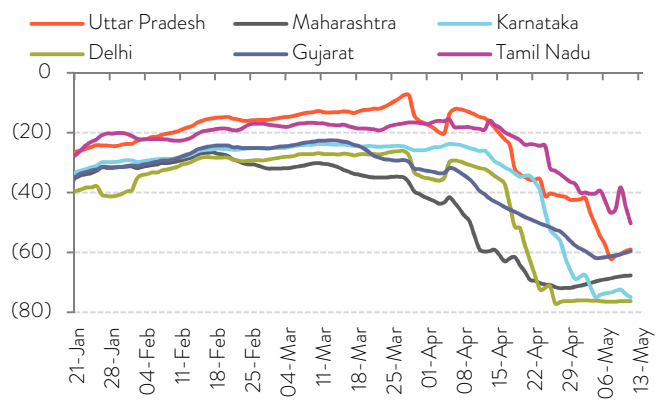
Source: CEIC, Bank of Baroda Research \*Data as of 15 May 2021

**FIG 3 – GOOGLE MOBILITY INDEX DIPPING**



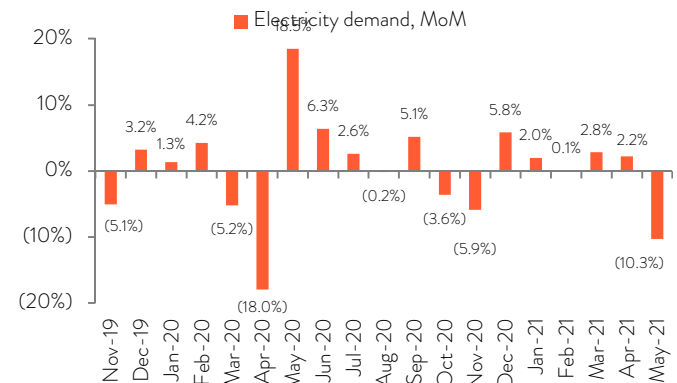
Source: CEIC, Bank of Baroda Research; \*Data as of 13 May 2021

**FIG 4 – IMPACT OF LOCALISED LOCKDOWN ON MOBILITY: RETAIL AND RECREATION**



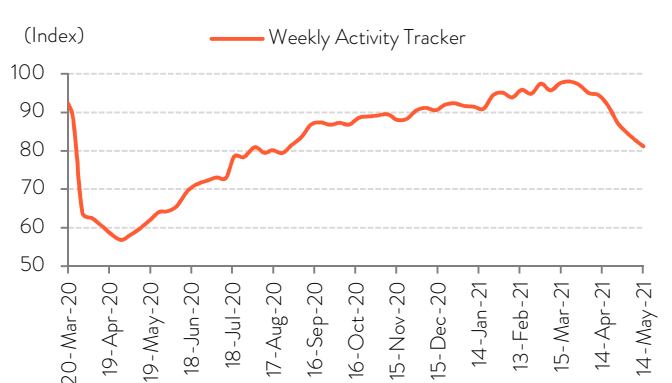
Source: CEIC, Bank of Baroda Research; \*Data as of 13 May 2021

**FIG 5 – ELECTRICITY DEMAND CONTINUES TO DIP**



Source: Bloomberg, Bank of Baroda Research; \*Data as of 14 May 2021

**FIG 6 – WEEKLY ACTIVITY TRACKER SHOWING A DIP**



Source: CEIC, Bank of Baroda Research, Note: Composite weighted average index of high frequency indicators; \*Data as of 14 May 2021

FIG 7 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1W	1M	3M	12M
<b>10Y yields (Δ bps)</b>					
US	1.63	5	1	42	99
UK	0.86	8	8	34	63
Japan	0.09	0	(2)	2	9
Germany	(0.13)	9	16	30	40
India	5.99	(3)	(3)	0	21
China	3.14	(2)	(3)	(11)	48
<b>2Y yields (Δ bps)</b>					
US	0.15	0	(1)	4	0
UK	0.08	5	3	12	8
Japan	(0.12)	1	0	(1)	2
Germany	(0.66)	3	5	5	7
India	4.33	(1)	(23)	(25)	(17)
China**	2.40	(6)	(16)	7	119
<b>Currencies (Δ %)</b>					
EUR	1.2141	(0.2)	1.6	0.2	12.2
GBP	1.4097	0.8	2.5	1.8	16.4
JPY	109.35	(0.7)	(0.3)	(4.2)	(2.1)
AUD	0.7771	(0.9)	1.7	0.1	21.2
INR	73.30	0.3	2.3	(0.7)	3.0
CNY	6.4371	(0.1)	1.6	0.3	9.4
<b>Equity &amp; Other indices (Δ %)</b>					
Dow	34,382	(1.1)	2.1	9.3	45.2
FTSE	7,044	(1.2)	2.2	6.9	21.4
DAX	15,417	0.1	1.2	9.7	47.3
NIKKEI	28,084	(4.3)	(5.6)	(4.9)	40.2
Shanghai Comp	3,490	2.1	2.8	(4.5)	21.7
SENSEX	48,733	(1.0)	0.4	(5.5)	56.7
Brent (US\$/bbl)	68.71	0.6	7.9	10.1	111.4
Gold (US\$/oz)	1,843	0.7	5.6	1.1	5.7
CRB Index	538.1	(0.9)	5.1	14.5	48.2
Rogers Agri Index	1,061.8	(5.4)	10.2	12.8	61.5
LIBOR (3M)*	0.16	0	(3)	(4)	(22)
INR 5Y Swap*	5.65	5	(2)	(25)	47
<b>India FII data (US\$ mn)</b>					
	<b>12 May</b>	<b>WTD</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-Debt	61.0	34.4	238.0	(2,154.3)	(127.0)
FII-Equity	(159.8)	96.8	(442.3)	5,394.8	(1,931.5)

Source: Bloomberg, Bank of Baroda | \*Indicates change in bps | \*\*1Y yield

FIG 8 – DATA RELEASE CALENDAR

Date	Event	Period	Estimate	Previous	Actual
17-May	Japan PPI, % YoY	Apr	3.1%	1.0%	--
	Singapore non-oil domestic exports, % YoY	Apr	12.0%	12.1%	--
	China new home prices, % MoM	Apr	--	0.4%	--
	China fixed assets ex rural YTD, % YoY	Apr	20.0%	25.6%	--
	China retail sales, % YoY	Apr	25.0%	34.2%	--
	China industrial production, % YoY	Apr	10.0%	14.1%	--
	Japan machine tool orders, % YoY	Apr	--	65.1%	--
	India WPI, % YoY	Apr	9.2%	7.4%	--
18-May	Japan GDP SA, % QoQ	Q1CY21	(1.1%)	2.8%	--
	RBA Minutes of may policy meeting		--	--	--
	Euro Area trade balance SA, € bn	Mar	19.1	18.4	--
	Euro Area GDP SA, % QoQ	Q1CY21	(0.6%)	(0.6%)	--
	US housing starts, in mn	Apr	1.7	1.7	--
19-May	US FOMC meeting minutes	28-Apr	--	--	--
	UK CPI, % YoY	Apr	1.5%	0.7%	--
	Euro Area CPI, % YoY	Apr	1.6%	1.3%	--
	Singapore GDP, % YoY	Q1CY21	0.9%	0.2%	--
20-May	Japan exports, % YoY	Apr	31.0%	16.1%	--
	Australia unemployment rate, %	Apr	5.6%	5.6%	--
	Germany PPI, % YoY	Apr	5.1%	3.7%	--
	US initial jobless claims, in thousands	15-May	455.0	473.0	--
21-May	UK GfK consumer confidence	May	(12.0)	(15.0)	--
	Japan CPI, % YoY	Apr	(0.5%)	(0.2%)	--
	South Korea exports 20 days, % YoY	May	--	45.4%	--
	Jibun Bank Japan manufacturing PMI (flash)	May	--	53.6	--
	Jibun Bank Japan services PMI (flash)	May	--	49.5	--
	Retail Sales MoM	Apr	0.5%	1.3%	--
	Markit France manufacturing PMI (flash)	May	58.5	58.9	--
	Markit France Services PMI	May	53.0	50.3	--
	Markit/BME Germany manufacturing PMI (flash)	May	66.0	66.2	--
	Markit Germany services PMI (flash)	May	52.0	49.9	--
	Markit Eurozone manufacturing PMI (flash)	May	62.6	62.9	--
	Markit Eurozone services PMI (flash)	May	52.4	50.5	--
	Markit UK PMI manufacturing PMI SA (flash)	May	60.7	60.9	--
	Markit/CIPS UK services PMI (flash)	May	62.1	61.0	--
	Markit US manufacturing PMI (flash)	May	60.2	60.5	--
	Markit US services PMI (flash)	May	64.5	64.7	--
	Euro Area consumer confidence	May	(6.7)	(8.1)	--
	US existing home sales, in mn	Apr	6.1	6.0	--

Source: Bloomberg, Bank of Baroda

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